

GAO

Testimony

Before the Committee on Rules and Administration  
United States Senate

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For the Hearing Record  
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Wednesday  
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COMMENTS ON S. 2748

Proposed Library of Congress  
Fund Act of 1992

Statement of  
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Mr. Chairman and Members of the Committee:

We are pleased to present to you today our comments on S. 2748, a bill that would authorize the Library of Congress to provide certain information products and services on a reimbursable basis. Among other things, the bill would establish a Library of Congress revolving fund to provide and finance specialized library products and services. Such services would include document copying and centralized acquisition of library materials. Some of these activities are currently financed by revolving gift funds, others by federal agencies under provisions of the Economy Act.

In our report last year on our first financial audit of the Library of Congress,<sup>1</sup> we identified several problems, including the unauthorized use of revolving gift funds. We stated that the Library exceeded its statutory authority by operating 12 revolving gift funds to finance a number of activities, such as the sale of photo duplications, recordings, and publications. We recommended that the Library seek statutory authority to use such gifts for self-sustaining activities as revolving funds. S. 2748 would give the Library authority to transfer the revolving gift funds into a new consolidated Library of Congress revolving fund and, thus, if enacted, would satisfy our concerns about lack of statutory authority for these revolving gift funds.

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<sup>1</sup>Financial Audit: First Audit of the Library of Congress Discloses Significant Problems, (GAO/AFMD-91-13, August 22, 1991).

We also support subsection 202 (a) (2) of S. 2748, which would restrict obligations for the revolving fund activities to the amounts specified in the appropriations act for any fiscal year. This would provide for congressional oversight for the types of services to be provided through the fund.

We would like to discuss three other issues which relate to this proposed legislation: (1) the Library's need for improved accounting systems, procedures, and controls to accurately account and bill for the reimbursable activities, (2) the value of preparing annual financial statements for those activities and having them audited, and (3) the effect of investing revolving fund monies in public debt securities.

NEED FOR IMPROVEMENTS IN ACCOUNTING  
SYSTEMS, PROCEDURES, AND CONTROLS

In our report on our first financial audit of the Library, we recommended that the Library seek statutory authority to use gifts for self-sustaining activities as revolving funds. We believe that the Library should be given that authority now. However, our report also explained that the Library's financial management controls and systems were weak and that the Library was unable to reliably determine the cost of reimbursable services it provided. Since our audit work was completed, the Library has made certain improvements in its controls and operations. However, if the

Library is to accurately account for and report on these reimbursable activities, the Library must make additional improvements and ensure they are operating effectively. The problems we identified that have affected reimbursable activities are discussed below.

The Library had not uniformly prescribed, documented, or followed the policies and procedures required to effectively control the accounting and reporting of its financial management information. The lack of guidance resulted in staff developing their own procedures to meet their needs, so that the resulting financial data was not necessarily accurate, compatible, consistent, and in accordance with generally accepted accounting principles. Also, the Library's automated general ledger accounting system was not integrated with the numerous systems that generate accounting data, and the Library did not have internal control policies and procedures in place to ensure the accuracy of the data obtained from these other sources.

The Library did not routinely reconcile general ledger control accounts with subsidiary records. As a result, the Library could not identify and correct errors in the accounts before they adversely affected the reliability and accuracy of its financial statements and other financial management information. We identified unreconciled differences between general ledger control account balances for revenues, which would be part of the

reimbursable activities, and subsidiary account records maintained by the FEDLINK<sup>2</sup> program; the Photoduplication Service; and the Motion Pictures, Broadcasting, and Recorded Sound Division. A Library official told us recently that improvements in the FEDLINK program, one of the largest components to be added to the revolving fund, are still needed in the area of reconciliations of financial data. (See our report for an in-depth discussion of the problems with FEDLINK.)

Since the completion of our audit work, the Library has established a structure for promulgating accounting policies and procedures to be followed throughout the Library and has established a task force to study its financial management system. The task force has completed two documents, a requirements document and an alternatives analysis. The next step is approval of the documents by the Library's management team, then funding for the selected solution. The Committee may wish to consider requiring the Library to periodically report on its progress toward achieving a reliable accounting system that can accurately capture the costs of its reimbursable activities.

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<sup>2</sup>The Federal Library and Information Network (FEDLINK) is a program run by the Library under the Economy Act to support federal library and information centers in the procurement of books and computer-based information retrieval services for its members.

## PREPARATION AND AUDIT OF ANNUAL FINANCIAL STATEMENTS

In response to the recommendation in our August 1991 report that the Library plan for the preparation and audit of annual financial statements, the Library stated that an effective, integrated financial management system with required annual reviews of financial operations is a long-range goal. We believe that the preparation and audit of annual financial statements is important for all areas of government.

The preparation and annual audit of financial statements would disclose meaningful and useful information for assessing programs and providing a clear picture of the reimbursable activities' financial status to the Congress. This kind of financial disclosure can (1) provide the Congress greater insight into and understanding of the activities' financial affairs, (2) reflect accountability for the Library's businesses and resources, and (3) be useful to the Congress in exercising its oversight and control over the reimbursable activities. For example, statements can highlight critical information, such as the significance of accounts receivable, inventories, and accounts payable, and can be used to develop trends, make comparisons, and provide a basis for evaluating the reimbursable activities' performance.

Also, audited financial statements can be viewed as a report card on financial management to point out deficient systems, help

quantify the extent of problems, and highlight what needs to be done to improve systems. In this regard, financial statement audits would help instill the organizational discipline needed to develop and maintain accurate and timely systems of internal controls and accounting.

Thus, if the Congress decides to set up these reimbursable activities for the Library, we believe S. 2748 should require the Library to prepare and have audited by an independent external auditor annual financial statements of these activities, as required for revolving funds and substantial commercial functions in executive agencies under the Chief Financial Officers Act of 1990. S. 2748 could also provide for the Comptroller General to review such audits, or conduct the audit, at the Comptroller General's initiative or at the request of a committee of Congress.

#### INVESTMENT OF REVOLVING FUND MONIES

Subsection 202 (h) of S. 2748 would allow the Library of Congress to invest in U.S. public debt securities portions of the revolving fund that are not part of the appropriated capital of the fund and are not immediately required for payments from the fund. Although interest is usually paid on gift and trust fund balances, it is not normally authorized for revolving funds. Further, the fund would receive advances and other payments from federal agencies. To the extent such advances and payments are not

required for payments from the fund, they could be invested and the Treasury would then be paying interest on funds appropriated to agencies and paid to the Library for specialized library products and services. We oppose authorizing the revolving fund to invest funds received from federal agencies.

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We have also identified some technical drafting matters that we will discuss with your staff. We hope these comments are useful in your deliberations on this proposed legislation.